

Message Text

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10/44

ACTION EA-10

INFO OCT-01 ISO-00 EB-04 COME-00 TRSE-00 OMB-01 CIEP-01

PA-01 PRS-01 USIA-06 CIAE-00 INR-05 NSAE-00 RSC-01

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R 110458Z OCT 74

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 8774

AMEMBASSY CANBERRA

UNCLAS WELLINGTON 3239

C O R R E C T E D C O P Y (MRN - 3239 VICE 3339)

EO 11652: NA

TAGS: EGEN NZ

SUBJECT: COST-OF-LIVING JUMPS 3.7 PER CENT IN SEPTEMBER QUARTER

1. LATEST CONSUMER PRICE INDEX (CPI) JUST RELEASED BY GNZ FOR QUARTER ENDING SEPTEMBER 30 SHOWS A 3.7 PER CENT RISE. FOR THE YEAR ENDING SEPTEMBER THE CPI ROSE 11.5 PER CENT COMPARED WITH 8.9 PER CENT FOR THE PREVIOUS YEAR.

2. FOOD WAS THE ITEM SHOWING GREATEST INCREASE AND HOUSING WAS SECOND.

3. THE PRIME MINISTER, IN COMMENTING ON THE INCREASE SAID IT IS TOO HIGH BUT IT WAS EXPECTED. HE SAID THE MAIN REASONS FOR THE INCREASE WERE (A) THE SECONDARY EFFECTS OF INCREASED INFLATION IN NZ'S TRADING PARTNERS, (B) SEASONAL INCREASED COSTS FOR FRUITS AND VEGETABLES AND (C) JULY'S WAGE INCREASES OF 9 TO 11 1/4 PER CENT.

4. THE RECENT 9 PER CENT DEVALUATION WILL INCREASE UPWARD PRESSURE ON THE CPI DURING THE OCT-DEC QUARTER. THE LEADER OF THE OPPOSITION PREDICTS 14.8 PERCENT INCREASE FOR THE 1974 YEAR.

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5. WITH A NEAR AUTOMATIC NATIONAL WAGE ADJUSTMENT, BASED ON THE JULY-DECEMBER CPI INCREASE DUE IN JANUARY, THE GNZ FINDS ITSELF IN A DIFFICULT POSITION. ALLOWING THE WAGE INCREASE TO GO THROUGH WILL ONLY EXACERBATE AN ALREADY SERIOUS INFLATIONARY SITUATION. REDUCING THE AMOUNT OF THE INCREASE IS BOUND TO INCUR THE WRATH OF ORGANIZED LABOR. IN EITHER CASE, THE ROWLING GOVERNMENT IS FACED WITH MAKING SOME UNPLEASANT DECISIONS.

6. COMMENT: THE GNZ WILL SOON RELEASE A STATEMENT ON THE ECONOMIC SITUATION. IT WILL UNDOUBTEDLY COVER THE PROBLEMS OF INFLATION, BUT WHETHER EFFECTIVE NEW MEASURES WILL BE ANNOUNCED IS ANYONE'S GUESS. AS NOTED ABOVE, UNPLEASANT DECISIONS ARE GOING TO HAVE TO BE MADE. THE FACT THAT 1975 IS AN ELECTION YEAR WILL NOT RENDER THE DECISION-MAKING PROCESS ANY EASIER. THE ECONOMY IS A MAJOR TEST OF MR. ROWLING AND THE SKILL WITH WHICH HE HANDLES THE PROBLEMS OF THE NEXT FEW MONTHS WILL BE WATCHED BY ALL AS A MEASURE OF HOW SUCCESSFUL HE IS GOING TO BE AS PRIME MINISTER.
KILLGORE

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